

## Unbundling Offered as Way to Modernize Mail

Most people agree that the Postal Service needs some adjustments in order to thrive and continue its universal service mandate in the face of a changing competitive landscape. But with postal reform bills stalled, at least for the moment, two postal regulatory experts argue it's time to think of things in a new way.

Postal economist John Haldi and postal legal expert William Olson think the postal industry should take a cue from industries that were formerly vertically integrated, such as telecommunications and electricity, and unbundle the functions of the Postal Service. The idea is to retain the "natural monopoly" through the portion of the postal network that provides daily universal delivery service and enjoys large economies of scale and scope and to separate the mail processing, transportation and acceptance functions of USPS, which do not have such monopolistic barriers to entry, and subject them to competition.

In a paper on the subject first presented at an international postal conference in Antwerp, Belgium, the authors suggest USPS could be unbundled by separating it into two distinct units with the unit

responsible for mail processing and transportation, called the United States Mail Service, subject to full market competition and required to set rates so that they cover the full cost of these functions. The other entity, the United States Delivery Service, would continue to fulfill the universal service mission of the current Postal Service.

"Over time, full competition should reduce cost and improve quality of mail processing and transportation services. This would help to maintain – or even to increase – the total volume of mail delivered by the USDS," Haldi and Olson write.

The unbundling idea can be seen as an extension of the worksharing discounts that correspond to prices for upstream services. But worksharing discount prices "can differ significantly from those likely to result from complete unbundling and full competition," the authors say.

One of the major transitional issues in moving to unbundled service involves facilities with multiple functions, such as facilities that process

originating, outgoing mail and also sort destinating, incoming mail. The authors suggest that either the USDS could contract with the USMS to use facilities and employees for destination mail or it could lease the facilities and conduct delivery functions during late night or early morning hours. But the USMS would need to be in complete control of use of facilities in order to keep facility decisions as separate from political considerations as they are for companies such as FedEx, United Parcel Service or DHL.

“Unbundling would maximize downstream access opportunities while preserving the [universal service obligation]. After unbundling, existing delivery, retail and collection networks would

function uninterrupted, daily universal delivery service would continue unchanged, and single-piece letters would continue to be charged a uniform rate.”

Haldi also pointed out to BMR that unbundled mail service could resolve the current controversy before the Postal Rate Commission in which proponents of the Bookspan negotiated service agreement proposal want a special discount while critics say a government agency with a delivery monopoly should not be allowed to set discriminatory rates. Under unbundling, the privatized upstream provider could make whatever deals it sees fit while the downstream provider, the USDS would continue under regulatory constraints.